LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6985 **DATE PREPARED:** Dec 27, 2001
BILL NUMBER: SB 349 **BILL AMENDED:**

SUBJECT: Telecommunications Infrastructure Development.

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FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill establishes the Telecommunications Infrastructure Development Account as a separate account within the Industrial Development Grant Fund. The bill provides that 20% of all state Sales and Use Taxes collected on retail transactions involving telecommunications services shall be deposited in the account to be used to provide loans, grants, and loan guarantees to eligible entities for telecommunications infrastructure projects.

Effective Date: July 1, 2002.

Explanation of State Expenditures: This bill will have an administrative impact on the Department of Commerce and the Department of State Revenue.

Department of Commerce: The Department of Commerce currently manages the Industrial Development Grant Fund. The bill will create the Telecommunications Infrastructure Grant Account within that fund. The Department will be required to use the account to assist eligible entities in the development of telecommunications infrastructure by making loans, grants, and loan guarantees on behalf of eligible entities. The bill requires the Department to establish procedures for identifying projects that qualify for funding, criteria for establishing a project's priority, and procedures for selecting projects. The costs associated with administering this account are expected to be covered using existing staff and resources.

Department of State Revenue: The Department of State Revenue would be required to establish a means of separating Sales Tax collections on telecommunications services from other Sales Tax collections. (Under current law, all collections are reported on the same form, with the single exception of the Sales Tax collected on motor fuel sales.) To accommodate the reporting change, the Department would have to make changes to its filing and computer systems. The Department's start-up costs of implementing these provisions are estimated to be less than $50,000.

Explanation of State Revenues: This bill changes the distribution of 20% of the revenue received from the Sales Tax collected from the sale of intrastate telecommunications services. The Sales Tax on sales of telecommunications services is expected to generate approximately $103.5 M in FY 2003 and $106.2 M in FY 2004. Under current law, revenue from the Sales Tax on telecommunications services is distributed, as is revenue from all Sales and Use taxes, in the following manner: the State General Fund (59.03%), the Property Tax Replacement Fund (40.00%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.17%), and the Industrial Rail Service Loan Fund (0.04%). Under this bill, the first 20% of the Sales Tax revenue collected from the sale of intrastate telecommunications services will be distributed to the Telecommunications Infrastructure Development Account, a fund created by this bill. The remaining Sales Tax collections will be distributed as they are under current law.

Adjusting for the remittance and collections of the Sales Tax, the bill is expected to provide approximately $19.0 M in FY 2003 to the Telecommunications Infrastructure Development Account. In FY 2004, the first full year of collections impacted by this bill, approximately $21.2 M would be distributed to the Telecommunications Infrastructure Development Account. As a result of this change, the following funds will experience a reduction in revenue during FY 2004: State General Fund ($12.5 M), Property Tax Replacement Fund ($8.5 M), Public Mass Transportation Fund ($161,000), Commuter Rail Service Fund ($37,000), and the Industrial Rail Service Fund ($8,000).

The table below illustrates how Sales Tax collections from the sale of telecommunication services would be distributed under current law and under the changes proposed in this bill during FY 2004, the first full year of impact.

Estimated FY 2004 Sales Tax Revenue on Telecommunications Services, as distributed under current law and with the proposed changes.			
Fund	**Current Law**	**Proposed Law**	**Difference**
State General Fund	62,690,000	50,152,000	(12,538,000)
Property Tax Replacement Fund	42,480,000	33,984,000	(8,496,000)
Public Mass Transportation Fund	807,000	646,000	(161,000)
Commuter Rail Service Fund	181,000	144,000	(37,000)
Industrial Rail Service Fund	42,000	34,000	(8,000)
Telecommunications Infrastructure Development Account	-0-	21,240,000	21,240,000
Total	**$ 106,200,000**	**$ 106,200,000**	**-0-**

The estimate above is based on past Sales Tax collections from the sales of telecommunications services, as adjusted for historic and forecasted growth in the state's total Sales Tax collections.

Explanation of Local Expenditures:

Explanation of Local Revenues: Funds in the Telecommunications Infrastructure Account would be used to develop telecommunications infrastructure at the local level.

State Agencies Affected: Indiana Department of Commerce; Department of State Revenue; Auditor of State;

State Budget Agency; Governor's Office.

Local Agencies Affected: Eligible funding recipients.

Information Sources: Department of Commerce; Department of State Revenue; *November 14, 2001, Revenue Forecast Update*.